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**American  
Cotton  
Shippers  
Association**

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May 11, 2000

Jean A. Webb  
Office of the Secretariat  
Commodity Futures  
Trading Commission  
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**Received CFTC  
Records Section**

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OFFICE OF THE SECRETARIAT

Re: Submission of New York Cotton Exchange  
Fast Track Review of Resolution  
Precluding Cotton Pledged As Collateral To  
CCC Loan From Certified Stocks

**COMMENT**

Dear Secretary Webb:

These supplemental comments are impelled by the May 2<sup>nd</sup> submission of the American Cotton Producers (ACP) of the National Cotton Council, which implies that the private merchants by having equal access to the redemption and carrying charge provisions of the marketing loan program can also certificate such cotton for delivery on the New York Cotton Exchange No. 2 Contract. This is a privilege that is only afforded to the cooperatives. Private merchants who market the greatest portion of the cotton produced in the US cannot certificate loan cotton. ACSA's March 22<sup>nd</sup> comments discussed this point in detail noting that:

"The independent (non-cooperative) merchants who handle approximately 80% of the cotton produced in the US are prohibited from certifying loan cotton for delivery on the No. Contract. Merchants who negotiate *Option to Purchase Contracts* with producers through an option payment are precluded from exercising any degree of control over the cotton unless the option is exercised through the act of redeeming the cotton from the CCC loan. While the cotton is under loan the USDA regulations are clear on who controls the cotton. The regulations require that the contract between the buyer and the producer contain the following language:

*Notwithstanding any other provision of this option to purchase, title; risk of loss; and beneficial interest in the commodity, as specified in 7CFR part 1427, shall remain with the producer until the buyer exercises this option to purchase the commodity. This option to purchase shall expire, notwithstanding any action or inaction by either the producer or the*

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*buyer, at the earlier of: (1) The maturity of any Commodity Credit Corporation price support loan which is secured by such commodity; (2) the date the Commodity Credit Corporation claims title to such commodity; or (3) such other date as provided in this option.*

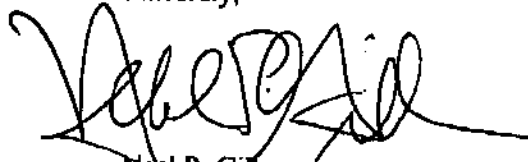
*Except as provided in the immediately preceding paragraph, the option to purchase granted by this clause shall be deemed to be exercised the date the buyer redeems such cotton from the Commodity Credit Corporation loan by repaying the loan indebtedness and related charges".*

Further, the ACP letter concludes that in the last "two years in which a substantial amount of cotton has moved through the loan we have seen no disruption in the No. 2 Contract." This is true only because the market price of cotton was depressed given the desultory effects of a world glut of cotton and the reduction in world demand resulting from the Asian Financial Contagion. As we transition from an oversupplied market to one of supply equilibrium the potential exists for the disruption of the smooth functioning of the contract. The role of certification as a prerequisite of delivery has been to maintain the proper relationship between the spot and futures prices for free cotton. Equally important, the hedging of cotton in trade channels is dependent upon the convergence of spot and futures prices at the time of futures delivery. Further, neither certification nor delivery is intended to provide a market outlet for cotton.

The purpose of the rule change is to have the certificated stocks actually reflect the number of bales being tendered for possible delivery on the contract, and is clearly consistent with cash market practices at the contract's delivery points. We submit that it is in the best interest of those who rely on the contract for accurate price discovery in each end of the marketing chain, the producer and the textile mill, that the proposed contract rule change be approved.

We respectfully request that the Commission accept these supplemental comments.

Sincerely,



Neal P. Gillen,  
Executive Vice President &  
General Counsel